

An Overview of Utah's Property Tax System

Prepared for:

Revenue and Taxation Interim Committee
Utah Legislature

July 17, 2013

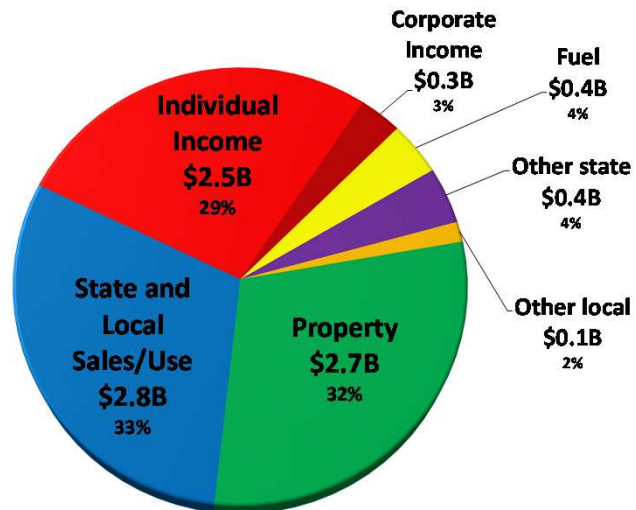


Presentation Outline

- Overview
- Property Tax Base
 - Constitutional provisions
 - Valuation process
- Property Tax Rates
 - Truth-in-taxation
- Property Tax Revenues
- Property Tax Relief
- Property Tax Burden



Utah's Three Major State and Local Taxes: Income, Property, and Sales & Use Tax Revenues FY 2012



Source: Utah State Tax Commission

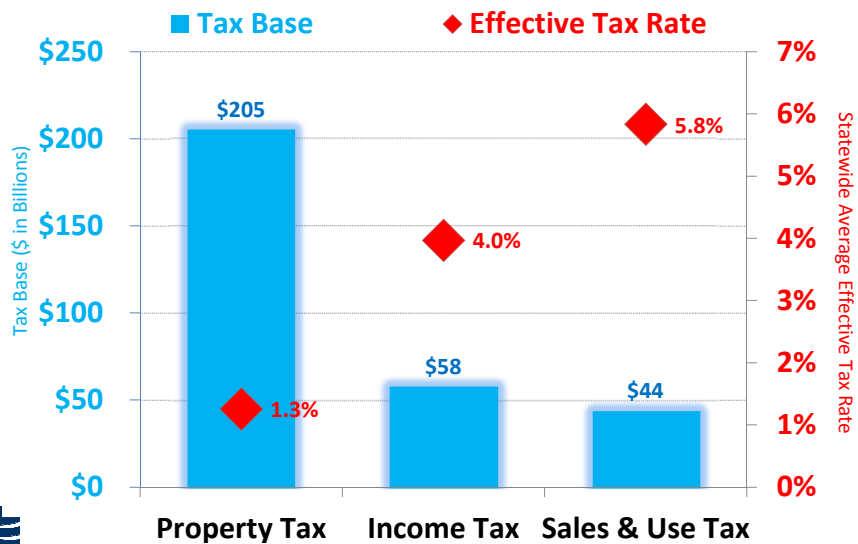
Why Does the Property Tax Matter?

- Tax on wealth and capital
- Source of revenue for schools and other local government entities
- Oldest state and local tax
- Stable
- Transparent
- Unpopular tax
- Promotes political accountability

Property Tax Base: What Gets Taxed?



Utah Tax Base & Effective Tax Rates



Source: Utah State Tax Commission

The Property Tax: Embedded in the Utah Constitution

Constitution places limits the Legislature's authority relative to the property tax

General Rule (Utah Constitution, Article XIII, Section 2)

- All tangible property shall be:
 - Assessed at a uniform and equal rate in proportion to its fair market value; and
 - Taxed at a uniform and equal rate

Exceptions to General Rule

Property Tax Exemptions



Exceptions to the General “Uniform and Equal” Requirement that the Legislature May Provide For

The Legislature may by statute:

- Provide for agricultural land to be assessed based on its value for agricultural purposes
- Determine the manner and extent of taxing livestock
- Determine the manner and extent of taxing or exempting intangible property
- Exempt tangible personal property required to be registered for use on a public highway, waterway, or land or in the air
- Provide for the remission or abatement of the taxes of the poor



Constitutionally-Mandated Exemptions

- Government owned property
- Nonprofit entity-owned property used for religious, charitable, or educational purposes
- Burial places
- Farm equipment and machinery
- Water rights and facilities used to irrigate land owned by the owner of the water rights and facilities
- Nonprofit entity-owned water rights and facilities used to irrigate land, provide domestic water, or provide water to a public water supplier



Selected Discretionary Exemptions

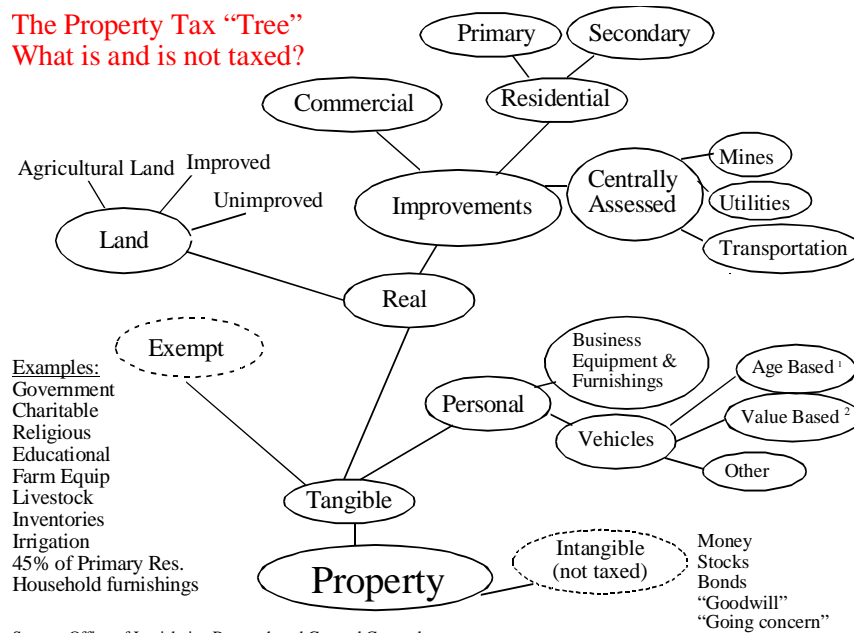
- Inventory
- Up to 45% of residential property value
- Household furnishings, furniture, and equipment
- Tangible personal property that generates an inconsequential amount of revenue
- Property owned by a disabled veteran or unmarried surviving spouse or orphan



The Property Tax Tree



The Property Tax “Tree” What is and is not taxed?



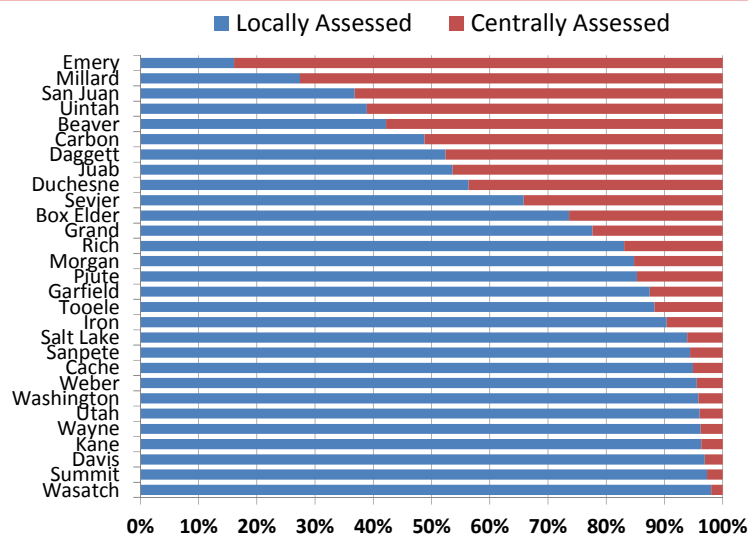
Source: Office of Legislative Research and General Counsel.

Assessment of Property: Who Does What?

- Utah State Tax Commission (“Centrally Assessed”)
 - Natural Resources
 - Public Utilities
 - Transportation
 - Pipelines
- County Assessors (“Locally Assessed”)
 - Residential
 - Business Personal Property
 - Commercial and Industrial
 - Agricultural

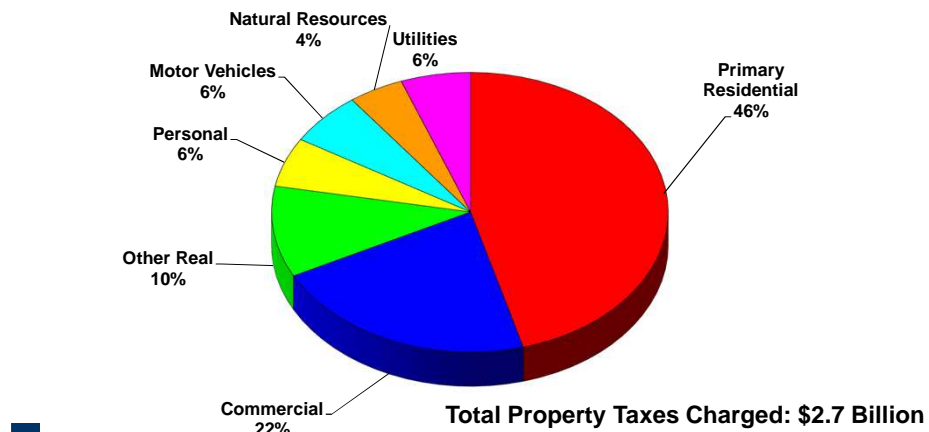


Portion of Property Tax Base That Is Centrally Assessed vs. Locally Assessed by County 2011 Tax Year



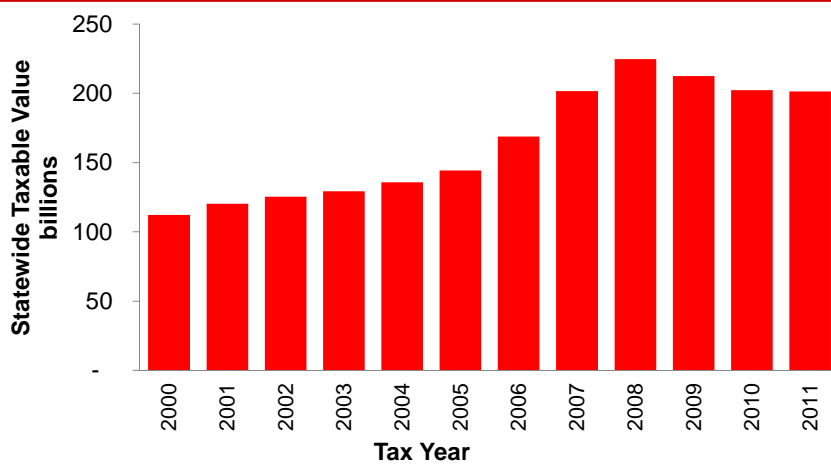
Source: Utah State Tax Commission, Property Tax Division

Property Taxes: Where Does the Money Come From? 2011 Tax Year



Source: Utah State Tax Commission

Statewide Taxable Value 2000 - 2011



Property Tax Rates

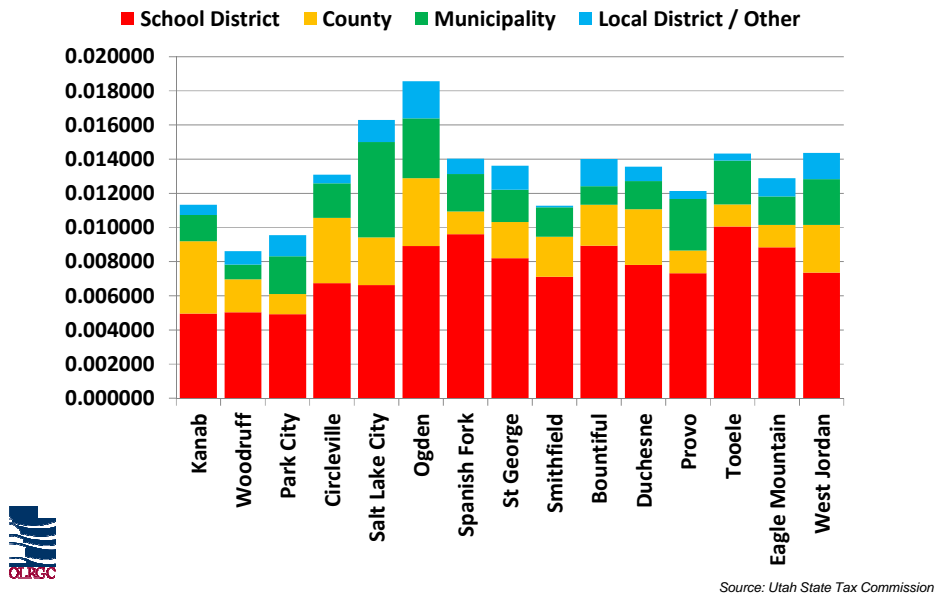


Who Can Levy Property Taxes?

- Political subdivisions can impose property taxes only as authorized by the Legislature
- Under current statute, the following entities have taxing authority
 - State
 - Cities and towns (including for general purposes, libraries, hospitals, canals, ditches, irrigation)
 - Counties (including for general purposes, libraries, planetariums, zoos)
 - Local districts
 - School districts
 - Local health department
- Most property tax authorizations have a tax rate cap, many have limitations on use of revenues



Property Tax Rates Vary by Location



Truth in Taxation

One System of Full Disclosure - Truth in Taxation: A “Revenue-Driven” System

Bottom line:

If a taxing entity desires to budget an increased amount of ad valorem revenue (exclusive of new growth) it must comply with “truth in taxation” by advertisement and holding a public hearing.



Truth in Taxation Holds Revenues Constant (No New Growth)

Budgeted Ad Valorem Revenue = \uparrow Valuations *
 \downarrow Rate

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 \uparrow Rate

➤ Taxing entity received no new revenue despite changes in property valuations.



There are different property tax rates at different points in the process:

- Certified rate: the property tax rate that will provide the same ad valorem property tax revenues as were budgeted in the prior year.
 - Is the “proposed rate” higher than the “certified rate”? If so, must advertise its budget hearing.
- Proposed rate: the property tax rate that a taxing entity proposes to impose in its budget setting process.
- Approved rate: the property tax rate ultimately adopted by the taxing entity and imposed on taxable property.



Calculating the Certified Tax Rate

$$\text{"Certified rate"} = \frac{\text{Prior Year Budgeted Property Tax Revenues}^*}{\text{Current Year's Adjusted Property Tax Base}}$$

* "Prior year budgeted property tax revenues" do not include interest, penalties, and certain redemption collections.

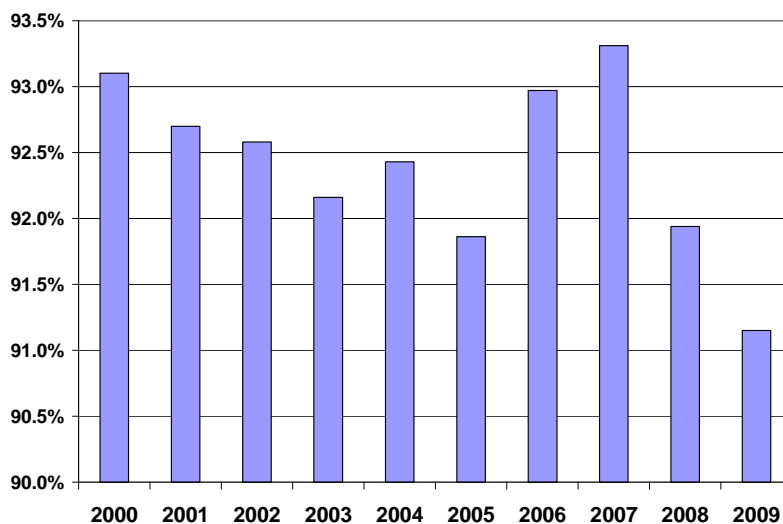


Calculating the Adjusted Property Tax Base

- Step 1 = Aggregate taxable value of all property tax minus RDA adjustments.
- Step 2 = RDA adjusted value * Average Percentage net change in value of taxable property due to BOE adjustments during the prior three years.
- Step 3 = Multiply the amount determined in Step Two by the property tax collection rate for the prior 5 years.
- Step 4 = Subtract "new growth" from the amount determined in Step 3.
- Equals = Adjusted property tax base.



Collection Rates (5 yr average)



Source: Utah State Tax Commission

New Growth

“New growth” = Increase in taxable value
from the previous calendar
year to the current year

Less:

The amount of increase resulting
from factoring, reappraisal, or any
other adjustment; or

The amount of increase in the
taxable value of property assessed
by the commission resulting from a
change in apportionment.



Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 1

Home



Taxable
Value: \$100,000

Factory



\$500,000

Office Building



\$1,000,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

$$\frac{\$10,000}{\$1,600,000} = 0.006250$$

Tax: \$625

\$3,125

\$6,250



Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 2

Home



Taxable
Value: \$90,000

Factory



\$500,000

Office Building



\$1,000,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

$$\frac{\$10,000}{\$1,590,000} = 0.006289$$

| | | | |
|----------------|--------|---------|---------|
| Tax This Year: | \$566 | \$3,144 | \$6,289 |
| Tax Last Year: | \$625 | \$3,125 | \$6,250 |
| Difference: | (\$59) | \$19 | \$39 |



Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 3

Home



Taxable
Value: \$90,000

Factory



\$500,000

Office Building



\$900,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

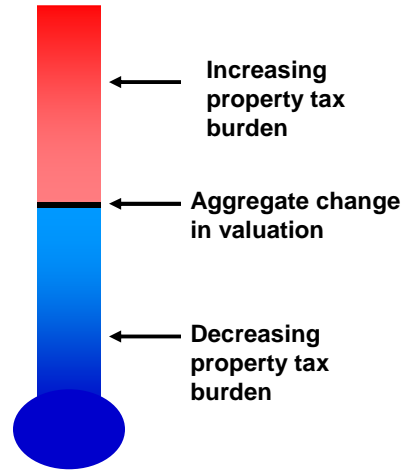
$$\frac{\$10,000}{\$1,490,000} = 0.006711$$

| | | | |
|----------------|-------|---------|---------|
| Tax This Year: | \$603 | \$3,355 | \$6,039 |
| Tax Last Year: | \$566 | \$3,144 | \$6,289 |
| Difference: | \$37 | \$211 | (\$250) |

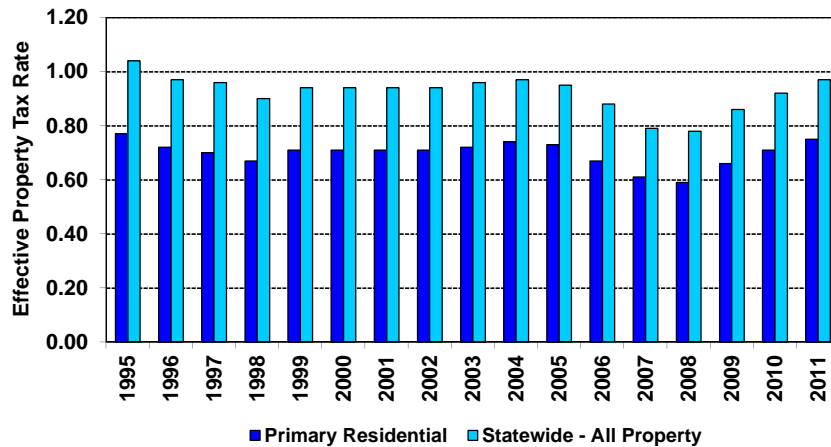


Property Valuation Changes Relative To Other Property May Change Property Owner's Tax Liability

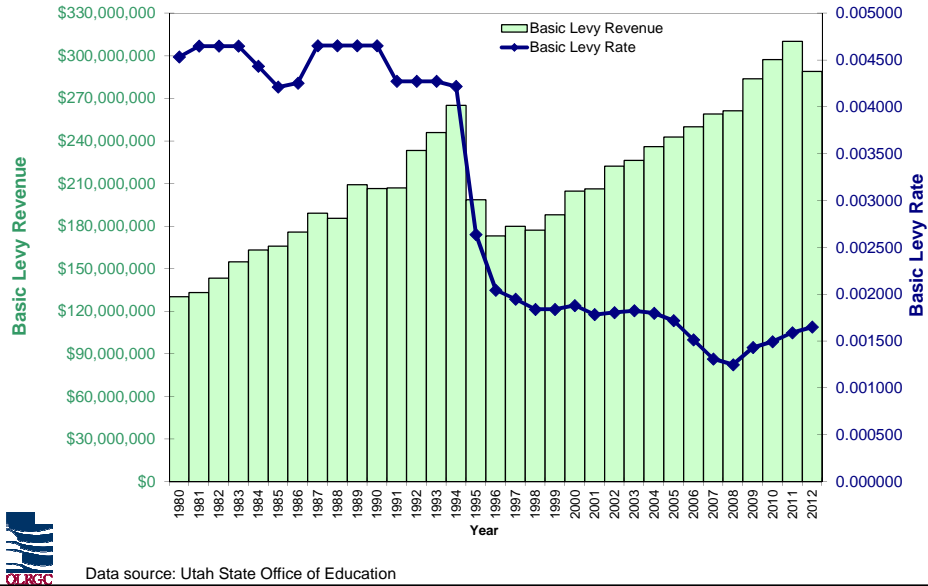
Taxpayers will likely see a change in property taxes despite no change in budgeted ad valorem property tax revenue for the taxing entity.



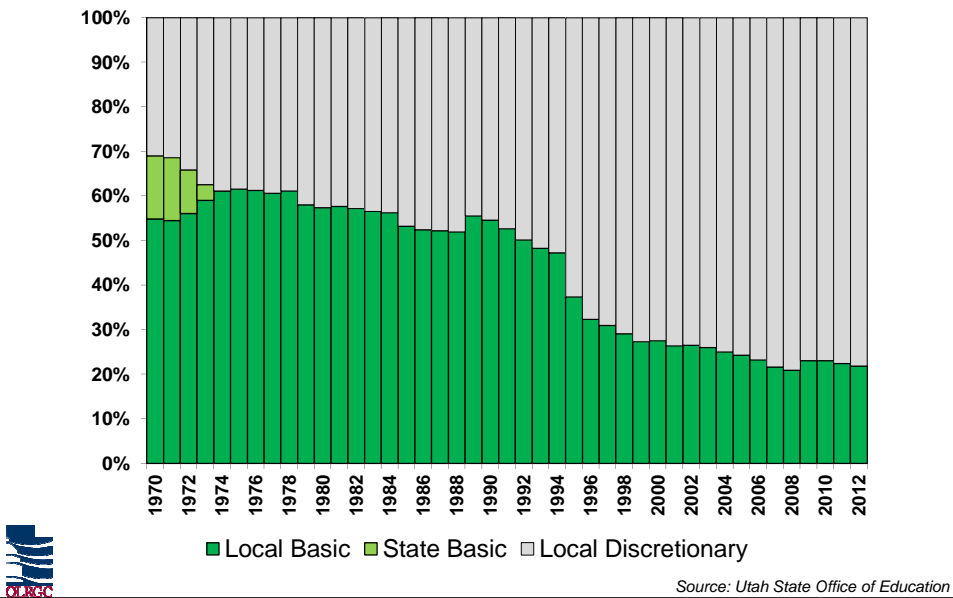
Effective Property Tax Rates Primary Residential Property and All Property 1995 – 2011 Tax Years



Basic Levy History



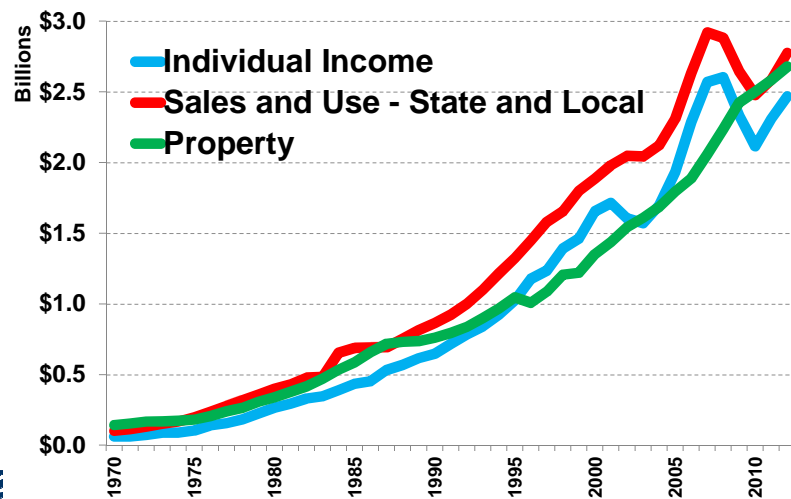
Basic Levy as % of Total School Property Tax



Property Tax Revenues



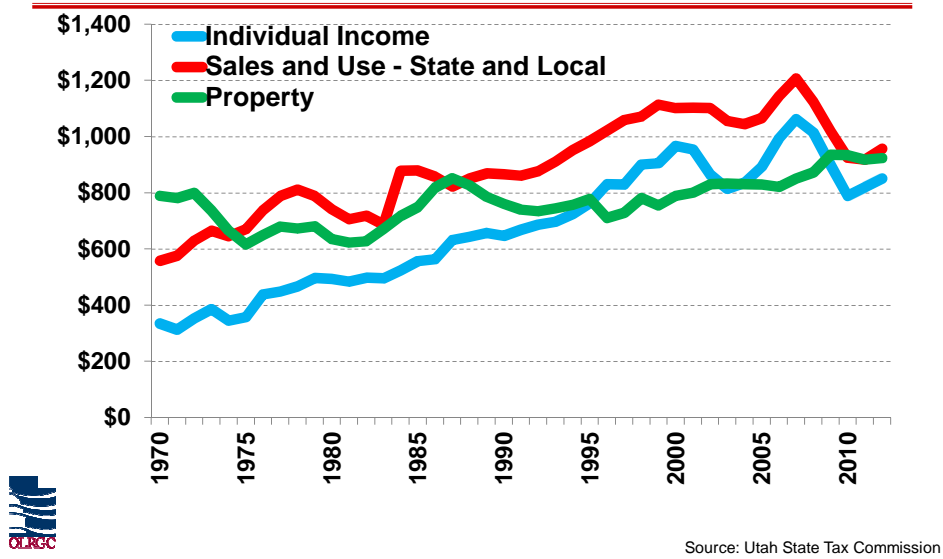
Nominal State and Local Sales/Use, Individual Income, and Property Tax Revenues
FY 1970 to FY 2012



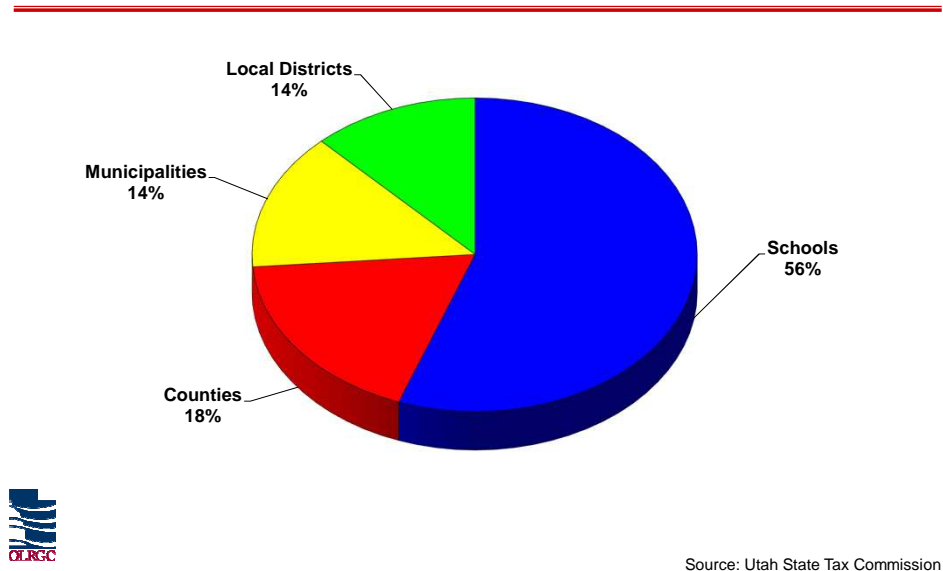
Source: Utah State Tax Commission



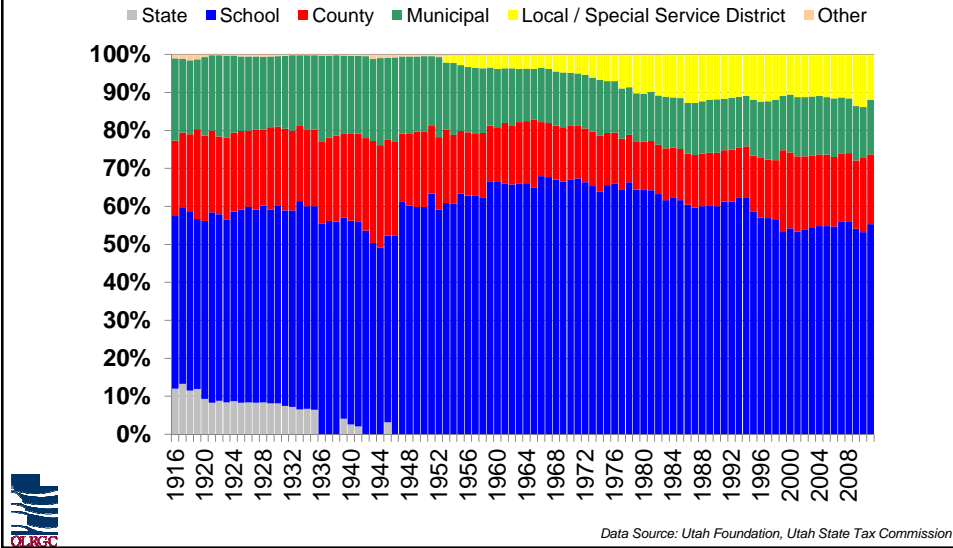
Real Per Capita State and Local Sales & Use, Individual Income, and Property Tax Revenues FY 1970 to FY 2012



Property Taxes Where Does the Money Go? 2011 Tax Year



Utah Property Taxes Over Time, by Purpose



Property Tax Relief

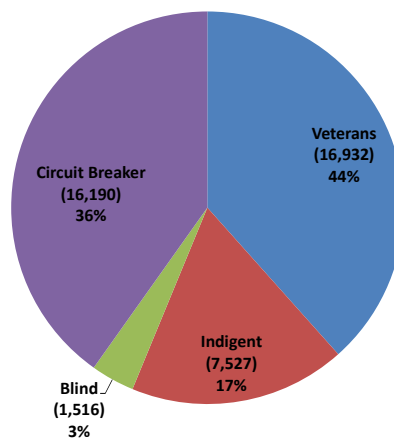
Property Tax Relief

- Circuit Breaker Property Tax Credit and Renter's Relief
 - State funded
 - Limited to elderly and low income (2012 household income < \$30,668)
 - Residence taxed at 35 percent of fair market value
- Abatements
- Deferrals
- Armed Forces
 - Disabled veteran
 - Certain unmarried surviving spouse or minor orphan
 - Active duty
- Blind



Property Tax Relief

Number of Recipients by Type of Program
2010 Tax Year

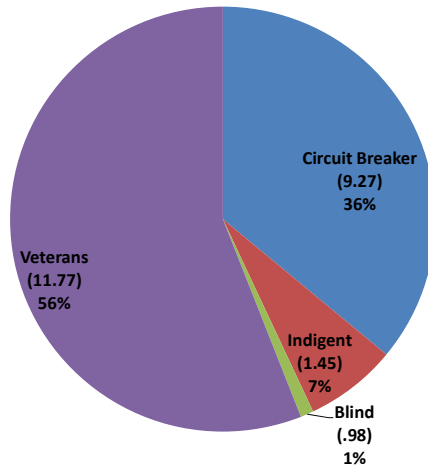


Number of Recipients



Property Tax Relief

Total Amount of Relief by Type of Program
2010 Tax Year

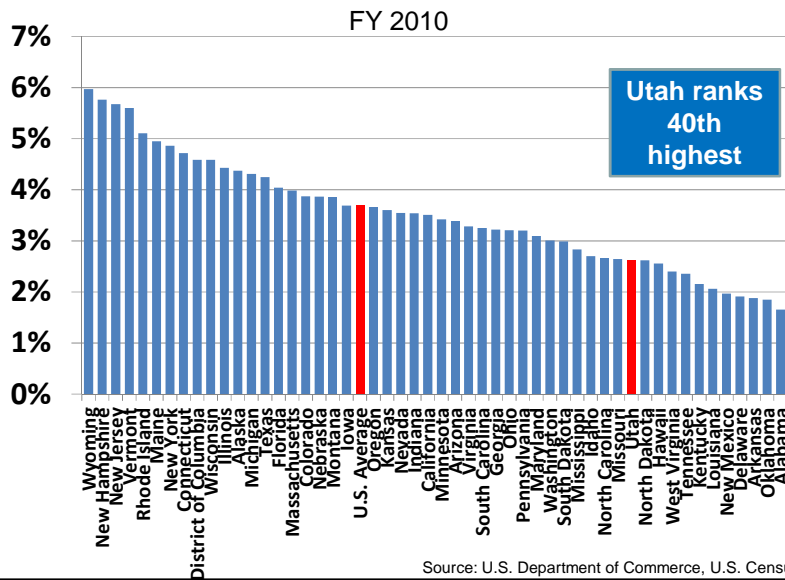


Millions of Dollars

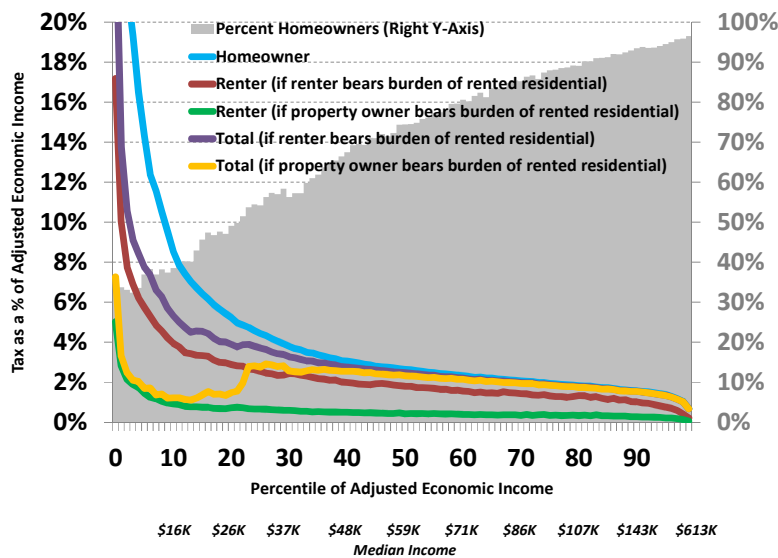
Property Tax Burden



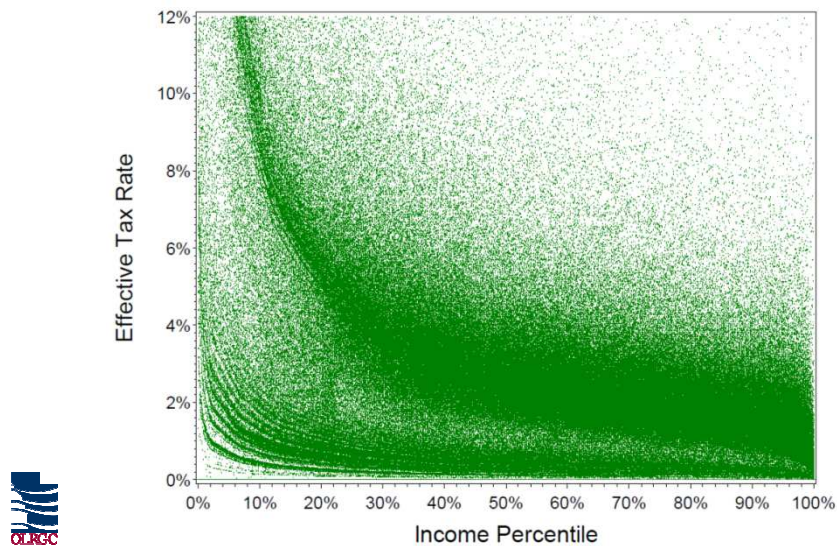
State and Local Property Taxes as a Percent of Personal Income



Property Tax on Residential Property by Income Percentile



Initial Property Tax & Motor Vehicle Burden Effective Tax Rates by Income Percentile



Please feel free to contact
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Office of Legislative Research and General Counsel

(801) 538-1032

